APPENDIX 5 - CENTRALIZED LOWDOC PROCESSING

1. INTRODUCTION

a. This appendix contains the policies, procedures, and guidelines specific to SBA's Low Documentation Loan Program (LowDoc). This program is a streamlined method by which the Agency provides its guaranty to eligible lenders on loan applications from eligible small businesses. The maximum loan amount for this program is $150,000, which includes the outstanding balance on any SBA loans excluding disaster loans. The streamlining in this program involves:

(1) Reduced paperwork for both the lender and applicant once the lender decides to apply for a guaranty on their proposed loan;

(2) A 36 hour response time by SBA on its decision to guaranty (this is based on consecutive working days); and

(3) Alternative post approval responsibilities from standard practices for the lender.

b. LowDoc is a financing vehicle which relies on the character and credit history of the borrower and the experience and judgment of the lender. The lender is expected to perform credit analysis on LowDoc loans in a manner consistent with prudent lending practices, and to summarize that analysis in its request to SBA for a loan guaranty.

c. This appendix discusses how a lender becomes a LowDoc lender, loan eligibility requirements, underwriting issues, and processing systems. Unless specifically addressed in this guide, all policies and procedures specified in the SBA's standard operating procedures (SOP) manuals (SOP 50 10, 50 50, and 50 51) and in the Code of Federal Regulations (CFR) Title 13, Part 120, shall apply.

d. To summarize, applications submitted for consideration under LowDoc procedures must meet the following criteria:

(1) The total loan amount (including the balance of any other SBA loans except disaster loans) must not exceed $150,000;

(2) The applicant business and its owners, partners, or principals must have a good credit history;

(3) The owners, partners, or principals must be of good character, (i.e., not have made an affirmative response to the questions in item IV of section D5 of SBA Form 4-L "Application for LowDoc Loan"); and

(4) The loan request must not involve any complex issues. Loans processed under LowDoc procedures should have straight forward structures, not involve situations requiring any determinations from legal counsel about the sufficiency of any proposed condition, or require a waiver of the policies established for the 7(a) Loan Program or LowDoc process.

If any of these criteria can not be satisfied, the application is not eligible for consideration under LowDoc. It may be considered under regular 7(a) procedures by the field office that serves the area where the business is located or will be located.

2. LENDER PARTICIPATION

a. Lender Participation

Participation in LowDoc Program is open to existing PLP and CLP lenders, plus other lenders who are experienced in making small business loans of $150,000 or less, including those which are not currently SBA lenders. Non-PLP/non-CLP lenders who want to become LowDoc lenders must have executed an SBA Form 750, "Loan Guaranty Agreement," and be experienced in making small business loans of $150,000 and less. In accordance with 13 CFR Part 120.410, a lender must have at least 20 qualifying loans outstanding that were initially approved in an amount of $150,000 or less. Qualifying loans are those that are categorized as commercial, industrial, or commercial real estate loans as identified on Call Reports. Lenders will certify to this fact by signing the LowDoc application form.

b. Lender Training

Training of participant lenders is a role shared by field offices and Headquarters staff alike. Each field office is responsible for ensuring that lenders doing business in its service area are knowledgeable of SBA's loan policies and procedures, as well as current Agency goals and objectives. LowDoc Processing Center (LDPC) staff are responsible for notifying LowDoc lenders of new policies and procedures relative to the LowDoc Program. The Office of Financial Assistance staff are responsible for developing materials for use in lender training activities to ensure that all LowDoc procedures and policies are consistently applied and administered.

c. Oversight and Review

(1) SBA will continue to monitor the performance of the LowDoc Program on an ongoing basis by tracking program activity and performance and by conducting periodic lender case file reviews to verify compliance with policy and procedural requirements and ensure that established credit standards are being maintained.

(2) Program oversight is the responsibility of Headquarter's Office of Financial Assistance (OFA) which monitors program usage, payment performance, and adherence to established policies and procedures. Program oversight includes quality assurance measures related to the processing and servicing of LowDoc loans in the centers. OFA is responsible for taking appropriate measures to ensure that the program operates in a safe and sound manner.

(3) OFA and the Office of Field Operations (OFO) coordinate lender oversight.

(4) OFA is:

(a) Developing improved reporting systems in concert with the Office of Chief Information Officer (OCIO);

(b) Establishing clear, articulate performance standards for the program and for lenders; and

(c) Developing a lender case file review process and a LowDoc Lender Review Report document to ensure adherence to LowDoc policy and underwriting standards.

(5) For lenders doing LowDoc business strictly within the boundaries of a field office, each field office is responsible for monitoring LowDoc activity and payment performance and for conducting case file reviews of that lender. Where lenders are doing LowDoc business across field office lines, the field office serving the area where the lender is headquartered is the office responsible for that lender review, unless it is otherwise notified by OFO. Field offices will notify OFO of any lenders in their area doing business across district lines. OFO will consult with OFA to determine the most appropriate means of carrying out the review.

(6) Field offices must develop a schedule of lenders to be reviewed and submit it to OFO annually. The reports provided by OFA, from which the lender and loan selection is made, must be retained (but not submitted to OFO) with the field office copy of the schedule.

NOTE: This schedule is due no later than December 1, of each fiscal year.

(7) Conducting lender visits for the purpose of reviewing LowDoc loan files also provides the opportunity to acquaint lenders with other programs and services offered by the Agency. At the same time, the reviewer should elicit comment from the lender concerning possible areas of improvement to LowDoc and other programs, as well and pass those comments along to OFO for coordination with OFA. Lender comments are to be a part of the "LowDoc Review Lender Recap" (Lender Recap) report.

(8) As stipulated in 13 CFR, § 120.431: "A Lender must allow SBA's authorized representatives, during normal business hours, access to its files to review, inspect and copy all records and documents relating to SBA guaranteed loans." SBA reserves the right to terminate a lender's participation in LowDoc at any time for just cause.

d. Selection of Lenders to be Reviewed

Field offices are responsible for conducting oversight of the LowDoc lenders through lender reviews. The district will be responsible for conducting reviews of LowDoc lenders each year. The sample of lenders will be selected by each field office using the following criteria:

(1) All lenders that have 10 percent or more of the (field office) total LowDoc loans for the prior fiscal year (mandatory); and

(2) Based on reports by lender (mandatory);

(a) Any lender with a LowDoc purchased or "in liquidation" within 12 months from first disbursement;

(b) Lenders that have five or more LowDoc loans outstanding and a combined over 90 days past due and "in liquidation" rate higher than the national average; and

(3) Random sample as determined by the field office (discretionary). Random sample is mandatory if no lender meets the criteria of (1) or (2) above.

NOTE: OFA will provide field offices with a fiscal year end report by lender.

e. Selection of Lender Loans to be Reviewed

Reviews are to be conducted by SBA staff that have completed Level III Commercial Credit Course, or have obtained a waiver from OFA. The sample of loans will be selected by each field office using the following criteria:

(1) Minimum sample of loans to be reviewed is 5 loans or 50 percent of the total LowDoc approvals for the prior fiscal year, whichever is greater;

(2) Recommended maximum total sample is 10 loans per lender;

(3) Sample shall be selected from the loans approved during the previous fiscal year.

f. Review Procedures

(1) Reviews are to be conducted using the "LowDoc Review Checklist" and "Lender Recap."

(2) The chief credit officer will make a recommendation to the district director, who will take any appropriate remedial action with regard to the lender, except for removal from the LowDoc Program or revocation of SBA Form 750. Recommendations of each action must be forwarded to the Associate Administrator for Financial Assistance (AA/FA) within 2 weeks from completion of the review.

(3) The "Lender Recap" will be submitted by the district director to Assistant Administrator for Field Operations (AA/FO), with copies to AA/FA within 2 weeks of the date of the review.

(4) Each "Lender Recap" must have a recommendation and supporting comments as follows:

(a) Lender's performance is acceptable and no further action necessary at this time; or

(b) Lender's performance is unacceptable requiring one of the following:

(i) Training in one or more of:
Eligibility
Complete Applications
Credit Criteria
to be completed by __(Date)___

(ii) Probation pending training and review of subsequent loans resulting in a finding of acceptable documentation and application of credit standards;

(iii) Suspension from the LowDoc Program for a minimum of 1 year or until a review of the lender's regular 7(a) packages indicates the necessary level of competency.

(5) Completed LowDoc "Lender Recap" reports are signed by the senior supervisory loan specialist and district director and forwarded to the AA/FO and a copy to the AA/FA within 2 weeks of completion of the review.

3. LOWDOC LOAN TERMS

a. Amount

The maximum amount for a LowDoc loan to any one small business, plus its affiliates[1], including the balance of any other outstanding SBA debt, except disaster assistance loans, is $150,000. A business can have more than one outstanding LowDoc loan so long as its total outstanding SBA guaranteed debt (regardless of the guaranteed portion) does not exceed $150,000.

[1] Affiliates are generally defined as businesses that have common ownership, common management, or contractual relationships. For additional information, refer to section 121.103 of CFR 13 or Subpart A, chapter 3, paragraph 3, of SOP 50-10(4).

b. Interest Rate

The interest rate on a LowDoc loan is negotiated between the lender and borrower and may be fixed or variable. However, under SBA regulations, the maximum rates are:

(1) 2 1/4 percent over the Wall Street Journal Prime on loans with maturities less than 7 years;

(2) 2 3/4 percent over the Wall Street Journal Prime on loans with maturities of 7 years or more;

(3) For loans of $25,000 and less, these rates may be increased by 2.0 percentage points; or

(4) For loans of $25,001 to $50,000 these rates may be increased by 1.0 percentage point.

c. Maturity

The maturity for a LowDoc loan is determined by:

(1) Ability to repay;

(2) Use of loan proceeds; and

(3) Useful life of the assets being financed.

Loans for working capital purposes may not exceed 7 years, except in cases where a longer maturity (not more than 10 years) may be needed to ensure repayment. The maximum maturity of loans used to finance personal property, i.e., machinery & equipment and furniture & fixtures, is limited to the economic life of those assets, not to exceed 25 years.

d. Repayment Terms

The lender should schedule repayment terms to coincide with the historical cash flow of the business. Loans are generally amortized in equal periodic installments of principal **and** interest over the life of the loan. Principal **plus** interest, semiannual, or annual payments are discouraged. Lines of credit and balloon payments are prohibited.

Short-term and single payment loans are allowed only with an identified and reliable source of repayment. Sources of income outside of the business being financed may be used to help substantiate repayment ability in the LowDoc Program. These sources of income must be clearly identified by the lender when submitting the application to the LDPC. For an outside source of income to be relied upon to demonstrate repayment ability, it must be constant, consistent, and sufficient to meet the needs of the individual(s) and repay the loan. Reliance upon the earning capacity of an individual(s) is subjective. It is subject to income from potential employment being sufficient to meet personal needs plus repay the loan.

4. LOWDOC ELIGIBILITY REQUIREMENTS

All loans processed under LowDoc procedures are subject to the eligibility and credit requirements of the 7(a) program as stipulated in statue, regulation, or policy, unless specifically amended by this appendix. SBA's current edition of "Processing Function" SOP [SOP 50-10(4)] is the basic source document for an explanation of these requirements.

LowDoc eligibility is ultimately determined by the LDPC. Lenders are responsible for ensuring that the applicant and the proposed use of loan proceeds are eligible. Lenders are to complete the "LowDoc Eligibility Checklist" for LowDoc loans and use it as a basis for responding to the eligibility questions on the LowDoc Application Form (SBA Form 4-L). Checklists must be retained in lenders' loan files and be available for review by SBA. If there are any questions or uncertainties regarding the eligibility of a particular applicant, the lender should contact the LDPC for determination before submitting the application.

Summarized below are the eligibility requirements that are unique to loans processed under LowDoc procedures. They are referred to as the LowDoc Eligibility Criteria. These factors are generally in addition to the standard requirements of SBA's 7(a) loan program. Failure to satisfy these requirements does not render a loan ineligible for consideration under the 7(a) program. Rather they only prevent an application from being processed under LowDoc procedures.

The following LowDoc Eligibility Criteria apply only to applications processed under LowDoc procedures. They are all referenced on SBA's LowDoc Eligibility Checklist. Any loan excluded from LowDoc processing because of the first ~~four~~ reasons can only be considered under regular 7(a) processing. Loans excluded from LowDoc for any of the other reasons may be eligible to be initially processed under other methods of processing.

a. Dollar Amount Restriction

The total loan amount of any loan request processed under LowDoc procedures (including the balance of any other existing or pending SBA loans except disaster loans) can not exceed $150,000.

b. Credit History

As part of the overall character evaluation, an applicant's credit history is significantly relied upon during the processing of LowDoc applications. As a result, applicant concerns and their principals can not have a negative credit history (based on the business and personal credit reports) including no experience with bankruptcy.

c. Character

Each owner, partner, or shareholder must not be:

(1) Presently under indictment, on parole or probation;

(2) Charged for any criminal offense other than a minor motor vehicle violation; or

(3) Convicted, placed on pre-trial diversion, or on any form of probation, including adjudication withheld pending probation, for any criminal offense other than a minor motor vehicle violation.

If any of the above are true for any associate, the application is not eligible for consideration under the LowDoc Program.

Individuals who answer "yes" to (b) and/or (c) on SBA Form 4-L, "Application for LowDoc Loan," because of fully resolved past offenses may apply for a loan under regular 7(a) procedures. Action on these loan requests is subject to a character determination. A person may request a character determination in advance through the field office to which the application will be submitted.

d. Policy Waiver Restriction

Loans processed under LowDoc procedures shall not require that a waiver of SBA policy be provided in order for the proposed structure, or terms and conditions to be satisfied.

e. Complex Credit Issues

Loans processed under LowDoc procedures shall be straight forward, and not involve complex issues. They shall not require extensive risk assessment or a multitude of credit and collateral issues if approved. They shall not require excessive legal review to determine if the conditions will be legally sufficient.

Examples of inappropriate request include, but are not limited to: Loans structured with a piggyback arrangement; loans to acquire a building situated on leased land; or loans where repayment has to be determined from a combination of historical and projected statements from different businesses.

f. Special Size Standards

To eliminate the need to deal with numerous and varied size standards for different industries, LowDoc has established its own alternative size standard. An applicant (including all affiliates) must have average annual sales for the preceding 3 fiscal years of $5.0 million or less **and** employ 100 or fewer individuals averaged over the previous 12 calendar months from the date of application.

The following exceptions to the above size standard must be met by applicants in these industries:

(1) Farms ($500,000);

(2) Travel Agents ($1.0 million);

(3) Real Estate Agents ($1.5 million);

(4) Engineering, Architectural, and Surveying Services ($2.5 million);

(5) Fishing, Hunting, and Trapping ($3.0 million); or

(6) Dry-cleaning Plants ($3.5 million).

Applications that do not meet the special size standards for LowDoc but do meet regular 7(a) size standards must be processed under procedures other than LowDoc.

g. Refinancing Existing Debt

No more than 25 percent of the proceeds of any loan processed under Lowdoc procedures may be used to repay same institution debt (i.e., debt owed to the lender submitting the application).

The refinancing of existing SBA direct or guaranty debt is not authorized to be processed under any procedure other than regular 7(a).

h. Other SBA Programs

The following type of special 7(a) programs are not eligible for LowDoc processing:

Export Working Capital Program
International Trade,
Defense Loan and Technical Assistance (DELTA)
CapLines,
Employee Stock Ownership Plans (ESOP and ERISA)
Pollution Control
Community Adjustment & Investment Program (CAIP)

5. STANDARD 7(a) ELIGIBILITY REQUIREMENTS

Because all loans processed under LowDoc procedures are subject to the eligibility and credit requirements of the 7(a) program, processors of LowDoc requests need to be familiar with the standard eligibility requirements of the 7(a) program. Summarized below are other factors of eligibility that apply to all 7(a) loans. These are provided herein in order to inform processors of request for financial assistance of the other requirements that must be considered as part of the processing of any 7(a) application. These requirements are also referred on the LowDoc Eligibility Checklist, even those they are not specifically factors applicable to LowDoc.

a. Type of Business

Most types of small businesses are eligible. The following types of business, however, are **not** eligible:

(1) Nonprofit, religious, or charitable organizations;

(2) Businesses primarily engaged in lending or investment activities;

(3) Businesses engaged in real estate investment and other speculative activities;

(4) Businesses principally engaged in teaching, instructing, counseling, or indoctrinating religion or religious beliefs;

(5) Pyramid sales distribution plans;

(6) Businesses engaged in illegal activities;

(7) Businesses deriving more than one-third of their revenue from legal gambling activities;

(8) Private clubs not open to the general public;

(9) Consumer and marketing cooperatives;

(10) Loan packagers earning 30 percent or more of their revenue from packaging SBA loans;

(11) Businesses engaged in activities of prurient sexual nature; and

(12) Businesses or their Associates that have previously defaulted on a Federally assisted loan.

b. Credit Not Available Elsewhere

The SBA provides financial assistance only to an applicant for whom the desired credit is not otherwise available on reasonable terms from non-Federal sources. The lender must certify on all applications that, based on its knowledge of the terms and conditions generally available in its market, credit is not otherwise available on reasonable terms from non-Federal sources. The lender must substantiate this certification in its file.

c. Personal Resources of Principals

An applicant must show that the desired funds are not available from the personal resources of any owner who owns 20 percent or more of the applicant business. For any loan that is for $250,000 or less, SBA requires that any such owner must inject any personal liquid assets which are in excess of two times the total financing package or $100,000, whichever is greater.

For the purposes of this section, liquid assets include cash or cash equivalent, savings accounts, CDs, marketable securities, cash value of life insurance, or similar assets. Qualified retirement accounts, such as IRAs, Keogh, or 401k plans are **not** considered liquid assets.

Either the lenders or SBA may still require additional injections beyond what is required under the personal resources provision to make the loan credit worthy when credit factors indicate a need for additional capitalization.

d. Purpose of Loan Proceeds

LowDoc loans may be used for almost any legitimate business purpose. Examples include financing accounts receivable and inventory, purchasing machinery and equipment, purchasing and/or improving real estate, and purchasing or starting a business.

Loan proceeds may **not** be used for the following purposes:

(1) Payments, distributions, or loans to Associates of the applicant;

(2) Paying delinquent withholding or sales taxes or any other funds held in trust or replenish funds used to pay such accounts;

(3) Paying funds to any owner or replenish funds used for that purpose, except for **eligible** changes of ownership;

(4) Refinancing any debt which is already on reasonable terms or which does not provide at least a 20 percent cash flow improvement to the applicant; or

(5) Refinancing or paying any creditor in a position to sustain a loss, causing a shift to SBA of all or part of a potential loss from an existing debt.

e. Refinancing Existing Debt

The lender may refinance existing non-SBA applicant debt **only** when the debt is not already financed or cannot be refinanced on reasonable terms elsewhere, **and** a substantial benefit (as defined below) will be provided the applicant.

(1) Provides at least a 20 percent decrease in the scheduled amortized payment from that of the existing debt.

(2) Improves debt coverage to an acceptable level. The portion of the refinanced loan that results in the improved cash flow, i.e., the 20 percent decrease, must be used in turn to finance the hiring of additional staff, purchasing of assets, an increase in receivables or for other growth related financing needs - not simply to provide increased funds for owner withdrawals.

Any debts to the participating lender that are being refinanced must always have been current (within 29 days) according to the original terms of the debt agreement (payment transcript should be retained in the borrower's files) and all collateral securing it should be pledged on the new loan.

f. Change of Ownership

Change of ownership loans are eligible provided the business benefits from the change. In most cases this benefit should be seen in promoting the sound development of the business or preserving its existence. Proceeds **may not** be used to purchase only part (i.e., less than 100 percent) of the ownership of any owner, partner, or shareholder, nor may they be used to enable a borrower to purchase part of a business in which he or she has no existing interest.

A loan may not be used for one partner/shareholder or group of same to purchase the entire interest(s) of another partner/shareholder or group of same to the exclusion of the others. Loans for this purpose are made to the business to purchase the entire interest of the seller.

g. Franchises

Franchises are eligible provided the franchisee has the right to profit on the basis of its efforts, and the ownership of the franchisee bears the risk of loss. Franchises are not eligible if the franchisor retains the power to control the operations to such an extent that the franchisee is virtually operating under an employment contract.

SBA has established a centralized review and clearance procedure for franchises called the Central Registry (Registry). If a franchise is listed on the Registry and certifies that no changes have been made to its franchise documents since the date listed, disbursement may occur with no further review or clearance if the loan is approved. If the franchise is not listed on the Registry or indicates changes to its franchise documents since the date listed, review, and clearance must be performed by the LDPC prior to any disbursement.

Lenders are responsible for reviewing the franchise documents and determining the issue of control prior to submission of applications.

The presence of a franchise on SBA's PMEI01 and PMEI02 systems **IS NOT** sufficient to qualify an applicant operating under the franchise as eligible for financial assistance. These systems only indicate that the Agency has experience with them and what the historical performance has been over a 10 year time span.

h. Eligible Passive Company (EPC)

An EPC[2] is eligible provided it uses loan proceeds to acquire or lease and/or improve or renovate real or personal property that it leases to an Operating Company (OC)[3] for use by the OC. An EPC may be in any legal form of ownership structure. The following conditions apply to all legal forms:

(1) The use of proceeds must be an eligible use as if the OC were obtaining the financing directly.

(2) The EPC and the OC must be small under the appropriate size standards in 13 CFR part 121.

(3) The lease between the EPC and the OC must be in writing and must be subordinated to SBA's mortgage, deed of trust, or security interest on the property. Also, the EPC (as landlord) must furnish an assignment of all rents paid under the lease as collateral for the loan.

(4) The lease between the EPC of the OC, including options to renew exercisable solely by the OC, must have a remaining term approximate to the term of the loan at the time of loan closing.

[2] An Eligible Passive Company (EPC) is a small entity which does not engage in regular and continuous business activity, which leases real or personal property to an Operating Company for use in the Operating Company's business.

[3] An Operating Company (OC) is an eligible small business actively involved in conducting business operations now or about to be located on real property owned by an Eligible Passive Company, or using or about to use in its business operations personal property owned by an Eligible Passive Company.

(5) The OC must be a co-borrower with the EPC or a guarantor on the loan.

(6) Each individual who owns 20 percent or more of the EPC must guarantee the loan.

(7) Each individual who owns 20 percent or more the OC must guarantee the loan.

i. <u>Government and Child Support Obligations</u>

All applicants and their principals and guarantors must be current on all Government obligations, such as payroll and income taxes, existing SBA debt, and student loans. If the lender is aware of any delinquencies of this nature, the lender must submit the application for processing under regular 7(a) guidelines. All owners of 50 percent or more of the applicant concern must also certify, by signing the Authorization, that they are not more than 60 days delinquent on child support obligations.

6. CREDIT STANDARD

Lenders are to analyze and document LowDoc loans in a manner consistent with prudent lending practices. The strengths of the principal's character, credit, and capacity, as determined by the lender, may be considered to offset a marginal credit factor such as sporadic historical earnings, marginal owner equity, or insufficient collateral. Applications that do not meet the lender's standards for character, credit, and capacity should not be considered under LowDoc.

Instead of the traditional in-depth analysis of a 7(a) application, SBA reviews the information submitted by lenders on LowDoc applications, and if applicable the lender’s credit analysis and the applicant's financial statements. However, as stated before, the lender is expected to perform the same level of analysis as it does for similar non-SBA loan requests and consistent with prudent lending practices. Thus, to the extent possible, the lender should summarize its justification for the guaranty request on the LowDoc applications and supporting documentation. Simple statements to the effect that specific credit factors are satisfactory are not sufficient.

In order to maintain the program’s credit quality and streamlined application processes, complicated applications requiring a great amount of explanation or marginal applications which need an in-depth analysis should be submitted under regular 7(a) procedures.

a. Repayment

Since most LowDoc loans are long-term in nature, repayment considerations should take into account the cash flow of the business. Historic actual cash flow, as provided by an analysis of the sources and uses of cash of the business, is the best indicator of repayment ability and should be utilized for all existing businesses.

If repayment cannot be ensured from historic cash flow or from reasonable projections, as could be the case for start-up businesses, the lender should document its knowledge and judgment of the principal's management ability, character, capacity, and credit in determining whether future cash flow will be adequate to service the needs of the applicant.

The lender should comment, on the LowDoc application or in its credit analysis memorandum, on the extent to which the principal's character, credit, and capacity compensate for the previous marginal cash flow of the business and strengthen an otherwise weak SBA-guaranteed loan request.

With respect to sources of repayment, the smaller the business the more important its principals and the strength of character of those principals become when analyzing a credit request. Given that most LowDoc applicants are relatively smaller businesses, the lender should carefully analyze the repayment ability of both the business and its principals. Analyzing the debt-to-income ratios of the business and its principals separately and jointly (combined) will determine a more accurate overall repayment ability. Outside sources of income may be considered in establishing repayment ability.

b. Management

Management is the single most important issue in evaluating the potential success of a business. The lender must evaluate management's depth of knowledge and experience in the managerial and technical skills necessary to operate the business. Lenders assess and document the adequacy of management on the application. Lenders should consider the size and type of business and management's ability with respect to sales (growth), plus financial and operational matters. Businesses managed by absentee owners are discouraged.

c. Capital

All applicants are generally expected to reflect an adequate net worth position. The capital position of a business is often seen as a measure of its financial strength, credit worthiness, and ability to withstand financial adversity. It serves as a quick reference to identify credit risk, and provides some insight into the likelihood of the owner's/owners' commitment and willingness to work through difficult situations.

As is the case under regular 7(a) guidelines, the exact level of equity necessary for a LowDoc application should be decided on a case-by-case basis. However, under LowDoc, as stated above, the principal's character, credit, and capacity may offset a marginal equity position, provided other credit factors are satisfactory.

For an existing business, the lender may finance 100 percent of a particular asset provided the business has an adequate net worth and demonstrates repayment ability. Applications to start or purchase a business are not eligible for 100 percent financing.

Applicants with very weak capital positions resulting from losses or with dramatically improved forecasts should not be submitted under LowDoc. They should receive complete financial analysis under the regular 7(a) process.

d. Collateral

Collateral is not a primary consideration under the LowDoc Program. However, to reach adequate collateral coverage, the business must pledge all available assets. Generally, all assets financed with loan proceeds should secure the loan. If a portion of the loan remains under collateralized, consider other available assets of the business as additional collateral.

If business assets do not fully secure the loan, personally-owned assets of the principals should be pledged, generally non-real estate assets and investment properties first and then the principals' primary residences. While lenders may, of course, require the primary residences of principals at any time, SBA requires such assets only when equity in the residence is at least 25 percent of the fair market value. Unwillingness on the part of the applicant to pledge available collateral is basis for decline solely for the lack of collateral. Apply prudent lending practices in assessing the realistic recovery value of collateral. A formal evaluation by an individual known by the lender to be competent will be acceptable for real estate collateral for LowDoc loans.

e. Personal Guarantees

The SBA requires the personal guaranty of any person owning 20 percent or more of the business. Consider requiring the guaranty of spouses where legal and appropriate. Lenders can require a third party guarantor if it strengthens an otherwise weak application.

f. New Business and Purchase of Existing Business

Applications to start or for a new business (any business less than 2 years old) and to achieve a change of ownership by purchase of an existing business or purchase of the entire interest of one or more of the current owners by the business are eligible under LowDoc. Lenders must thoroughly analyze and underwrite each request before considering it for an SBA guaranty. In all cases, the applicant must submit a comprehensive business plan to the lender. Lenders should analyze and evaluate the soundness and viability of business plans, along with financial projections.

Under LowDoc, the credit risks for these types of applications should be relatively easy to identify and understand as a general rule. The lender should submit more complicated start-up and buy-out applications under regular 7(a).

7. GUARANTY PERCENTAGE AND FEES

a. Percentage of SBA's Guaranty

The policies concerning the maximum percentage of guaranty which SBA provides on 7(a) loans are described in Subpart B, Chapter 1, paragraph 5. These same policies apply to loans processed under LowDoc procedures.

The basic rules are: If no other loans are involved, SBA will provide an 80 percent guaranty on loans of $100,000 or less and a 75 percent guaranty on loans over $100,000 but not exceeding $150,000.

b. Guaranty Fee

The SBA guaranty fee for LowDoc loans is ¼ of 1 percent of the guaranteed amount when the term of the loan is 12 months or less, regardless. When the guaranteed portion is $80,000 or less, the guaranty fee is 2 percent of the amount guaranteed. When the guaranteed portion is more than $80,000, the guaranty fee is 3 percent of the amount guaranteed.

c. Application Fees

A lender **cannot** charge a LowDoc applicant the following fees: processing fees, origination fees, application fees, points, brokerage fees, bonus points, or any other such fees.

A reasonable packaging fee which is in line with those charged for similar services in the local geographic area may be charged. This fee must be disclosed on the Borrower's Application page, including the name and address of the packager. The following closing costs are typically borne by the borrower: surveys, title reports, appraisals, filing and recording fees, lender's attorney fees, and other charges related to closing.

8. LOWDOC PROCESSING

a. Where Should a Lender Submit its Request for Guaranty?

Lenders will deal with one of two LowDoc Processing Centers (LDPC), depending on the location of the small business concern being financed. If the business is located in SBA Region I, II, III, IV, or V, the application will be submitted to the Hazard LDPC. If it is in SBA Region VI, VII, VIII, IX, or X, the application will be submitted to the Sacramento LDPC.

b. What Information Must the Lender Submit?

Only the LowDoc Application Form (SBA Form 4-L). Other documents should only be submitted upon request by SBA. However, it is very important that all of the data required on the application form be submitted. This will minimize the need for time consuming follow up calls and will permit the centers to operate in the most efficient manner possible. Faxing the application form will work best. Once SBA completes its development of an electronic loan guaranty transmission system, this will become the preferred application process.

A lender **MUST VERIFY** the accuracy of the applicant's financial data against income tax data by submitting IRS Form 4506, Request for Copy or Transcript of Tax Form to the Internal Revenue Service (IRS). This verification is generally beneficial in evaluating both character and credit considerations. To prevent delays, it is a good idea for lenders to send the IRS Form 4506, which the applicant must sign, to the IRS at the earliest point in time in the application process. The IRS generally responds within 10 days. This policy does not apply to buy-outs of existing businesses or to start-up applications.

c. Submitting the Application

Lenders can either fax or mail the application package to the LDPC. Most will be faxed. Due to the limited space available to enter data on the LowDoc application form, it is critical that lenders ensure that applications are either printed legibly or typed to enable the faxed copies to be as clear as possible.

d. Approved Loans

If the application is approved, the LDPC will notify the lender by fax. Every attempt will be made to respond to a LowDoc guaranty request within 36 hours (1.5 business days), based upon consecutive working days. It is the responsibility of the lender to complete all other closing documents.

All Loan Authorizations will be prepared from a standardized list of terms and conditions nationwide as modified by covenants required by individual states.

e. Declined Loans

If the loan application is declined, the LDPC will fax the lender a letter stating the reasons for denial, and advising whether the decision may be reconsidered by the field office under LowDoc procedures or would have to be submitted under regular 7(a) procedures for further consideration.

f. Reconsiderations

(1) An applicant may request reconsideration of a loan declined under LowDoc procedures. However, the reason(s) for decline can determine the procedures for the reconsideration. Some reasons for declination may be so easily overcome or explained that it makes sense for the applicant to remain qualified for LowDoc processing. Other reasons for decline are related to issues that require a complete application package and full analysis under regular processing procedures to be fully understood. In addition some applications could be declined for reasons for which there is no reconsideration. These distinctions will determine the method of processing used in any subsequent reviews.

In addition, declined LowDoc applicants may need to benefit from the non-financial assistance services such as:

(a) Service Corp of Retired Executives (SCORE);

(b) Small Business Development Center (SBDC);

(c) Small Business Institute (SBI);

(d) Business Information Centers (BIC); or

(e) One Stop Capital Shops (OSCS).

These services are offered by SBA through it field structure. This type of non-financial assistance may prove useful for the applicant to improve their documentation and internal operations, and can be coordinated by local offices.

(2) An application declined at a LDPC may be reconsidered under LowDoc procedures, providing it has not been declined for any of the following reasons:

(a) The total loan amount request (including the balance of any other SBA loans except disaster loans) exceeds $150,000;

(b) A history of credit problem, such as a negative business or personal credit report or bankruptcy;

(c) A character issue, based on a positive response to any of the questions in item IV of section D5 of SBA Form 4-L;

(d) A waiver of regulations, policies, or procedures established for the 7(a) Loan Program or LowDoc process is needed;

(e) A level of complexity not suited for LowDoc processing because the case requires indepth credit or legal analysis for a full understanding of the risk associated with the request;

(f) The applicant concern does not qualify under the special size standard established for LowDoc loans;

(g) The proposed proceeds are not eligible under LowDoc procedures. Example, more than 25 percent of the proceeds are proposed for debt refinancing; and

(h) The type of special 7(a) Loan Program is not eligible for processing under LowDoc procedures. (Reference paragraph 4h of this appendix).

A LowDoc application declined for any of these LowDoc eligibility reasons can only be reconsidered under regular 7(a) procedures and processed only at the field office serving the area where the business is or will be located Upon submission, such requests will be classified as first time applications.

When the LDPC declines a request due to a LowDoc eligibility reason, the Center will notify the lender of the reasons for the decline, state the procedures for reconsideration, and identify the field office to contact. In addition the LDPC will forward the original decline file to the appropriate field office, at the time the decline letter is issued, in order to enable the field office to expeditiously reconsider the request if asked plus determine the appropriate non-financial services to offer the applicant and lender.

(3) When an application processed under LowDoc procedures is declined for reason(s) other than those stated in subparagraph (2) above, the LDPC will:

(a) Notify the lender of the reasons for the decline, state the procedures for reconsideration, and identify the field office to contact; and

(b) Forward the original decline file to the appropriate field office, to enable the field office to expeditiously reconsider the request if asked, and determine the appropriate non-financial services to offer the applicant and lender; and

(c) Maintain a copy of the original application file for 90 days for use in a reconsideration request if necessary.

These loans are eligible for reconsideration under LowDoc procedures.

(4) Any LowDoc application declined for reasons other than those listed in item (2) above may be reconsidered under LowDoc procedures at either the LDPC or appropriate field office. A reconsideration request must be submitted within 30 days of the date of decline to be processed under LowDoc procedures. The request must be in the form of a letter on lender letterhead and address how each of the reasons for decline have been overcome.

Any reconsideration request received after 30 days requires a complete 7(a) application and will be processed under regular processing procedures at the field office.

(5) Field offices may only use LowDoc processing procedures to process reconsiderations which were declined by a LDPC for reasons other than those listed in item (2) above. Field offices may not use LowDoc procedures to process any application which has not been previously processed and declined by a LDPC.

(6) The Agency's goal for processing reconsideration requests eligible for reconsideration under LowDoc procedures is 1.5 business days.

(7) If a LowDoc application is declined for any of the reasons in item 2 above and is to be reconsidered, it must be submitted under regular 7(a) procedures to the field office that serves the area where the business is or will be located. A letter addressing how the reasons for decline have been substantially overcome and requesting further consideration of a loan request must accompany a complete 7(a) loan application. Such a request will be classified as a first time application, and not as a first reconsideration.

(8) Once declined under LowDoc, an application may not be submitted through any other expedited guaranty process, such as PLP or *SBAExpress*, unless otherwise indicated.

9. LOAN CLOSING POLICIES

The lender must close LowDoc loans in accordance with the terms and conditions specified in the Authorization as well as according to standard 7(a) procedures.

a. Loan Closing Forms

The lender may use its own closing forms except for the following SBA forms:

(1) Note, SBA Form 147;

(2) Guaranty, SBA Form 148;

(3) Compensation Agreement, SBA Form 159;

(4) Settlement Sheet, SBA Form 1050;

(5) Certification Regarding Debarment SBA Form 1624;

(6) Certification page of Disclosure Statement and Statements Required by Law and Executive Order, SBA Form 1261;

(7) SBA Form 601, Agreement of Compliance, for construction loans only;

(8) SBA Form 793, Notice to New SBA Borrowers; and

(9) SBA Form 722, EEO Poster;

b. Documents Retained by the Lender

In addition to the original executed documents denoted by (*) above, the lender must retain all original closing documents in the borrower's file, and have them ready for review by SBA upon request, including but not limited to:

(1) The original signed and dated LowDoc Application (SBA Form 4-L);

(2) Copy of the Loan Authorization;

(3) Signed and dated (as appropriate) credit source documents, including personal and business financial statements (including affiliates), management resumes, credit reports, projections with assumptions, collateral lists, appraisals and similar information, and any information providing the basis for loan approval;

(4) Other relevant information, including environmental questionnaires or audits, lien search information, a transcript of account (participating lender debt refinance), leases, offers to purchase, Standby Agreements, evidence of required licenses; and

(5) IRS verification information.

c. Items Sent to SBA

(1) The documents to be sent to SBA after the closing of any LowDoc loan are the same as for any other 7(a) loan. The documentation includes:

(a) SBA Form 2004 (Certification); and

(b) SBA Form 159 (Compensation Agreement).

(2) Within 90 days from the date of the Authorization, the lender must forward the guaranty fee (based on the guaranteed portion of the loan) to the SBA's Denver Finance Center, Denver, CO 80259-0001.

10. LOAN SERVICING AND LIQUIDATION

a. Servicing

(1) The lender must service its LowDoc loans using generally accepted commercial banking standards of loan servicing employed by prudent lenders. The lender must not use lower standards for LowDoc loans compared with other loans in the lender's portfolio of similar size and type. The lender must retain documentation regarding the actions it takes on a loan in its loan file.

(2) The lender may take all servicing actions without approval from SBA (unilaterally) that it deems prudent and necessary on non-liquidation loans except for the following non-routine actions.

They must not:

(a) Take any actions that would create a conflict of interest or confer any preference on the lender in collection or lien position with respect to SBA's position or the shared SBA/lender position on the guaranteed loan.

(b) Compromise with any obligor of the principal loan balance outstanding for less than the full amount due. Accrued interest can be adjusted by the lender, if justified, without prior SBA approval.

NOTE: **Guarantors:** If a loan is delinquent or liquidation is contemplated or underway, prior SBA approval is required to release a guarantor for less than the principal balance owed, even if actual demand has not yet been made on the guarantor.

(c) Title property in the name of the Agency without SBA's prior written approval. The lender must not acquire title (in their name or the Agency's) to environmentally impaired property (property which exceeds the minimum action levels established by relevant regulatory agencies).

(d) Transfer a loan to another lender.

(e) Sell or pledge more than 90 percent of a loan.

(3) The lender must notify the Agency when unilateral changes are made that will require the Agency to make changes to the SBA data base (e.g., changes to interest rate, maturity, installment frequency, etc).

(4) Loan Purchases.

(a) How much interest will SBA pay?

The SBA will pay a maximum of 120 days of accrued interest.

(b) When will SBA purchase its guaranty?

Generally, except for bankruptcy situations, SBA will not honor its guaranty on a LowDoc loan until the lender has:

(i) Liquidated all personal property; and

(ii) Indicated in writing how it will pursue real property assets or other sources of recovery, including personal guarantors.

(c) Exceptions to SBA's policy on when to purchase.

The SBA may approve exceptions to this policy on a case-by-case basis if the lender submits to SBA:

(i) An adequate explanation for any delay; and

(ii) A satisfactory recovery plan showing how and when the lender will liquidate all remaining assets.

NOTE: This exception/deviation to this policy must be approved by the district director or designee level.

(d) Procedures for Purchase.

(i) The SBA will make payment on its guaranty only after SBA has reviewed and approved all documentation supporting the making, closing, servicing, and liquidation of the loan.

(ii) For loans sold in the secondary market, SBA strongly urges the lender to purchase from the holder and SBA will purchase from the lender as indicated above. However, SBA may immediately purchase from the secondary market holder if necessary.

(5) Submission of a LowDoc liquidation plan.

When the lender must submit liquidation plan.

(a) For loans with a principal balance more than $50,000 at the time of default, the non-PLP lender must submit its liquidation plan before starting liquidation action. For loans with a principal balance of $50,000 or less, the non-PLP lender is not required to submit a plan before starting liquidation action.

However, it must prepare a liquidation plan and submit the plan to SBA at the time of guaranty purchase. If SBA desires changes to the plan, it has 10 business days to notify the lender after receipt of the plan.

PLP lenders are required to follow the procedures established for liquidating any loan in their portfolio not originally processed under PLP procedures.

(b) When SBA purchases the guaranteed portion of the loan from the secondary market holder before liquidation, the lender still must submit to SBA the information described below, after it has completed liquidation action on the account.

b. Liquidation

(1) Who liquidates a LowDoc loan?

The lender does the liquidation on all LowDoc loans unless otherwise advised in writing by SBA.

(2) What requirements must the lender follow?

(a) All liquidations must be done prudently and in a commercially reasonable manner; and

(b) The liquidation must be consistent with SBA's regulations and the guaranty agreement.

(3) When does SBA require a LowDoc lender to submit a liquidation plan?

A liquidation plan, using the standardized liquidation plan format (see appendix 15 in SOP 50 51) is required to be submitted by a LowDoc lender to SBA on LowDoc loans:

(a) Prior to starting liquidation action for loans with a principal balance more than $50,000 at the time of default; or

NOTE: SBA has 10 business days to notify lender of any changes to the plan.

(b) When the LowDoc lender requests SBA to purchase the guaranty for loans with a principal balance of $50,000 or less at the time of default.

(4) Is the lender required to submit a report on LowDoc loans?

Yes. The lender must provide a **written** status report on **every** LowDoc liquidation every 90 days after guaranty purchase. Prior to purchase, the lender must submit status reports on liquidation cases when requested by SBA.

(5) How are expenses handled?

(a) The SBA shares in reasonable and necessary costs incurred by the participant on a pro rata basis up to its (SBA's) share of total recoveries; and

(b) SBA may agree to pay more (on a case by case basis) in bankruptcy situations upon a written request from the lender.

(6) How are costs in excess of the above handled?

The lender needs to absorb any excess costs.

(7) When does SBA honor its guaranty on a Low Doc loan?

SBA will honor the guaranty after the lender has liquidated all personal property (a/k/a business chattel) and lender indicates how it will pursue:

(a) Real estate; and

(b) Guarantors.

(8) Are there exceptions to this policy?

Yes. The SBA may purchase the guaranty prior to lender liquidating the personal property when there is a bankruptcy situation and the lender provides an explanation for any delays plus has a satisfactory plan of recovery showing how and when the remaining assets will be liquidated.

(9) How are guaranty purchases handled when the loan is sold on the secondary market?

The lender is strongly encouraged to purchase loans sold on the secondary market. The SBA will then purchase from the lender as indicated above, or from the secondary market holder if lender does not purchase.

(10) Can SBA purchase directly from the secondary market?

Yes. The SBA may immediately purchase from the secondary holder if necessary.

(11) Is there a limit on the amount of interest SBA will pay on a LowDoc loan?

Yes. The SBA will pay up to 120 days of accrued interest on LowDoc loans.

(12) What information is needed at the time of the guaranty purchase?

(a) The liquidation plan (if not already provided);

(b) A complete accounting showing all receipts and disbursements during the liquidation process;

(c) Identification of all collateral at loan origination with an explanation of the disposition of each item along with proceeds involved;

(d) The commercial reasonableness must always be addressed;

(e) Names of any contractors involved and their compensation which could include appraisers, auctioneers, attorneys, etc;

(f) All other sources of recovery pursued by the lender along with the proceeds received, or the reason for not pursuing; and

(g) Identification of any remaining sources of potential recovery along with a plan of action.

(13) Is the lender required to submit the above information when SBA has purchased directly from the secondary market?

Yes. The lender must submit the above mentioned information after it has completed the liquidation action on the account.

(14) Are SBA liquidation loan officers required to make field visits on LowDoc loans?

No. The SBA liquidation officers are not expected to make field visits on LowDoc loans, but are not restricted from doing so.

(15) Who is responsible for liquidation after the guaranty has been purchased?

The lender continues to be responsible for all liquidation actions even after the guaranty has been purchased.

(16) When must the lender provide a "wrap up report?"

The lender must provide SBA with a wrap up report documenting the lender's actions and results at the following times:

(a) When the lender determines that the loan will not be fully repaid after all worthwhile collateral has been liquidated; and

(b) No further recoveries are anticipated within a reasonable period of time (see Appendix 18, "Final Wrap Up Report," checklist in SOP 50 51).

If SBA purchase is requested, the necessary documentation for SBA to complete its purchase review of the loan must be provided (see Appendix 17, "Checklist for Purchase Documents," in SOP 50 51).